

OFFICE
OF THE
LEGISLATIVE
AUDITOR

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Waterworks District No. 2

Financial Statements

For the Year Ended June 30, 1963

Under provisions of statute, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Bureau Range office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1-23-64

**Waterworks District No. 2
Financial Statements
For the Year Ended June 30, 2003**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Balance Sheet	2
Statement of Revenue, Expenses and Changes in Retained Earnings.....	3
Statement of Cash Flows	4
Notes to Financial Statements	5-12

OTHER SUPPLEMENTAL INFORMATION

Schedule of Investments	14
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	15-16
Schedule of Findings and Questioned Costs	17
Summary Schedule of Prior Audit Findings	18
Management's Corrective Action Plan	19

Warren & Brewer

Certified Public Accountants
A Professional Accounting Corporation
111 East Carolina Avenue
Baton Rouge, Louisiana 70819

Jean L. Warren, CPA
Douglas A. Brewer, CPA

Telephone (504) 281-1117
Fax (504) 281-2168

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Waterworks District No. 2
Lincoln Parish, Louisiana

We have audited the accompanying general purpose financial statements of Waterworks District No. 2, a component unit of the Lincoln Parish Police Jury, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Waterworks District No. 2, as of June 30, 2003, and the results of its operations and cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information beginning on page 14 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of Waterworks District No. 2. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Warren & Brewer, CPA, APC

Baton Rouge, Louisiana
December 8, 2003

Financial Statements

Waterworks District No. 2
Enterprise Fund
Balance Sheet
June 30, 2003

ASSETS		2003
Current Assets		
Cash and Cash Equivalents	\$	1,486
Accounts Receivable - Customers		6,414
Unbilled Revenue		828
Sales Tax Refunds Receivable		388
Prepaid Insurance		1,917
Total Current Assets		11,033
Restricted Assets		
Certificate of Deposit - Customer Meter Deposits		2,899
Certificate of Deposit - Capital Expenditures		108,607
Total Restricted Assets		111,506
Property, Plant & Equipment		
Water System		97,880
Buildings		3,878
Office Equipment		3,877
Land		808
Total Property, Plant & Equipment		106,343
Accumulated Depreciation		(78,448)
Net Property, Plant & Equipment		27,895
TOTAL ASSETS	\$	161,379

LIABILITIES AND FUND EQUITY

	<u>2000</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ -
Accrued Water Purchases	2,440
Total Current Liabilities	<u>2,440</u>
 Payable From Restricted Assets	
Customer Motor Deposits	5,470
 TOTAL LIABILITIES	 <u>7,910</u>
 FUND EQUITY	
Contributed Capital:	
Water System Bond Proceeds	39,506
Subdivider	8,164
Total Contributed Capital	<u>47,669</u>
 Retained Earnings:	
Reserved for Capital Expenditures	185,409
Unreserved	<u>(2,404)</u>
Total Retained Earnings	<u>185,005</u>
 Total Fund Equity	 <u>153,669</u>
 TOTAL LIABILITIES & FUND EQUITY	 \$ <u>161,579</u>

The accompanying notes are an integral part of this financial statement.

Waterworks District No. 2
Statements of Revenue, Expenses and Changes in Retained Earnings
Enterprise Fund
For the Year Ended June 30, 2003

	<u>2003</u>
OPERATING REVENUES	
Charges for Services	
Water Revenue	\$ 36,891
Penalties	1,214
Tapping Fees	-
Total Operating Revenues	<u>38,105</u>
Cost of Sales	
Water Purchases	<u>41,525</u>
Gross Profit	14,480
OPERATING EXPENSES	
Accounting & Audit Expenses	1,080
Bad Debt	244
Bank Service Charges	90
Depreciation	2,394
Electricity	178
Insurance	1,272
Miscellaneous	288
Office Supplies	347
Repairs & Maintenance	3,512
Salaries	1,280
Sales Tax	287
Payroll Taxes	521
Telephone	888
Travel	882
Postage	<u>827</u>
Total Operating Expenses	<u>23,842</u>
Operating Income (Loss)	(11,362)
OTHER INCOME	
Interest Income	2,988
Miscellaneous Income	39
Total Other Income	<u>3,027</u>
NET INCOME (LOSS)	\$ (8,335)
Retained Earnings - Beginning of Year	<u>114,430</u>
Retained Earnings - End of Year	\$ 106,095

The accompanying notes are an integral part of this financial statement.

Waterworks District No. 2
Enterprise Fund
Statements of Cash Flows
For the Year Ended June 30, 2003

	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Loss	\$ (8,415)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	2,254
Decrease (Increase) in Accounts Receivable - Customers	1,762
(Increase) Decrease in Unbilled Revenue	80
(Increase) in Prepaid Assets	(1,858)
(Increase) in Sales Tax Refunds Receivable	(388)
Increase (Decrease) in Accounts Payable	(728)
Increase (Decrease) in Accrued Water Purchases	(1,398)
Net cash provided (used) by operating activities	<u>(8,583)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Increase in Customer Meter Deposits	90
Net cash provided by financing activities	<u>90</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Expenditures	(886)
Net cash used by financing activities	<u>(886)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in Certificates of Deposit	(255)
Net cash used by investing activities	<u>(255)</u>
 Net increase in cash and cash equivalents	 <u>(9,248)</u>
Cash and cash equivalents at beginning of year	<u>11,216</u>
Cash and cash equivalents at end of year	\$ <u>1,968</u>

The accompanying notes are an integral part of this financial statement.

Waterworks District No. 2
Notes To Financial Statements
For the Year Ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Nature of Activities

Waterworks District No. 2, (the "District") pursuant to Louisiana revised Statute 33:1811, was created by Ordinance 380, dated July 13, 1985, adopted by the Lincoln Parish Police Jury. The District, which serves commercial and residential customers in and around Vidalia, Louisiana, was completed and became revenue producing during the month of May, 1986.

The accompanying general purpose and individual fund financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units, except as noted elsewhere in this report. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District's accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes 24:114 and to the guides set forth in the *Louisiana Governmental Audit Guide*, and to the industry audit guide, *Audit of State and Local Governmental Units*.

The more significant of the District's accounting policies are described below.

B. Financial Reporting Entity

As the governing authority of the parish, for reporting purposes, the Lincoln Parish Police Jury is the financial reporting entity for Lincoln Parish. The financial reporting entity consists of (a) the primary government (police jury), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the Lincoln Parish Police Jury for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body, and
- a. The ability of the police jury to impose its will on that organization and/or
- b. The potential for the organization to provide specific financial benefits to- or impose specific financial burdens on the police jury.
- c. Organizations for which the police jury does not appoint a voting majority but are fiscally dependent on the police jury.

Waterworks District No. 2
Notes To Financial Statements
For the Year Ended June 30, 2003

- d. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Lincoln Parish Police Jury Ordinance 380, dated July 13, 1965, created Waterworks District No. 2, set forth and defined its boundaries, designated its name and number, designated its domicile, its govern and its commissioners, designated the minimum number of meetings of the commissioners and their compensation, set forth the qualifications of the commissioners, designated the maximum amount of salary which may be paid the secretary of the board of commissioners, and designated the officers to be elected by the board of commissioners.

Because of the above criteria, the district was determined to be a component unit of the Lincoln Parish Police Jury, the financial reporting entity. The accompanying financial statements present information only on the funds maintained by the district and do not present information on the police jury, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

C. Fund Accounting

The Waterworks District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The Waterworks District No. 2 Enterprise Fund is classified in the following category and fund type.

Proprietary Fund - Enterprise Fund

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

D. Property, Plant and Equipment

Public domain (infrastructure) assets including the waterline distribution system are capitalized along with other fixed assets and are included on the proprietary fund's balance sheet.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Depreciation has been provided over the estimated service lives using the straight-line method. The estimated service lives are as follows:

Waterworks District No. 2
Notes To Financial Statements
For the Year Ended June 30, 2003

Office Equipment 5 - 10 Years

Storage Building 30 Years

Waterline Distribution 20 - 50 Years

Depreciation on the proprietary fund amounted to \$ 2,354 for the year ended June 30, 2003.

All property, plant and equipment are recorded at historical cost with the exception of donated property, plant and equipment which are recorded at their estimated fair value of \$8,164 on the date donated.

E. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

F. Budget and Budgetary Accounting - Legal Compliance

Waterworks District No. 2 is not legally required to adopt a budget and has not done so. Encumbrance accounting is not used.

G. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash includes amounts in demand deposits and interest bearing demand deposits, as well as short-term Certificates of Deposit with a maturity date within three months of the date acquired by the District. Certificates of deposit and other securities with original maturities over three months are classified as short-term investments and stated at cost, which approximates market value.

H. Investments

The District is authorized to make direct investments in United States government bonds, treasury notes, treasury bills or certificates, or times certificates of deposit of state banks organized under the laws of Louisiana and national banks having their principal office in the State of Louisiana.

I. Fund Equity

Reserves are recorded to indicate that a portion of the fund balance is segregated for a specific future use. The Reserved account, "For Capital Expenditures" is used to segregate a portion of fund balance for capital expenditures.

Waterworks District No. 2
Notes To Financial Statements
For the Year Ended June 30, 2003

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

1. RESTRICTED ASSETS

Certain assets of the District have been restricted for customer meter deposits and capital expenditures. These assets consist of short-term investments as follows:

Certificates of Deposit

Customer Meter Deposits	<u>\$ 1,582</u>
Capital Expenditures	<u>\$108,400</u>

3. CASH AND CASH EQUIVALENTS

Cash and certificates of deposit are stated at cost, which approximates market value. Under state law, these deposits (or the remaining bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At June 30, 2003, the District had \$ 124,002 in deposits (collected bank balance) which were adequately secured from risk by federal deposit insurance and pledged securities held by the custodial bank in the name of Waterworks District No. 2.

4. RECEIVABLES

All accounts receivable are considered by management to be fully collectible and no allowances for doubtful accounts is considered necessary.

Waterworks District No. 3
Notes To Financial Statements
For the Year Ended June 30, 2003

5. SEGMENT INFORMATION - ENTERPRISE FUND

The Waterworks District maintains an enterprise fund which is intended to be self-supporting through user fees charged for water service to the public. Financial segment information as of and for the year ended June 30, 2003, is presented below:

Property and equipment additions	\$987
Operating revenues	58,603
Depreciation	2,354
Operating loss	(11,362)
Net loss	(8,413)
Net working capital	1,633
Total assets	161,379
Total equity	153,669

6. PROPERTY, PLANT AND EQUIPMENT

A summary of proprietary fund type property, plant and equipment at June 30, is as follows:

Office Equipment	\$3,877
Buildings	2,870
Water Distribution System	96,814
Land	<u>800</u>
Totals	103,361
Accumulated Depreciation	<u>(68,090)</u>
Net	<u>\$35,261</u>

Waterworks District No. 1
Notes To Financial Statements
For the Year Ended June 30, 2003

7. CONTRIBUTED CAPITAL - PROPRIETARY FUND

Contributed capital at June 30, 2003, consisted of:

12-1-85 Public Improvement Bond proceeds used for construction of capital assets	\$59,900
Contribution for subdivision - water well and distribution lines	<u>8,764</u>
Total	<u>\$68,664</u>

8. CONCENTRATIONS OF CREDIT RISK

The District grants credit without collateral in excess of customers' deposits. Customers are local area residents and commercial entities within the Waterworks' district.

9. WATER REVENUE

A summary of water sales to metered customers for the years ended June 30 is presented below:

Sales to Customers	\$56,891
Number of Customers at June 30	285

Information regarding gallons of water sold and purchased is as follows:

<u>Description</u>	
Gallons Sold	24,908,670
Gallons Purchased	<u>36,888,292</u>
Gallons Purchased in Excess of Sales	<u>(11,971,622)</u>

The above discrepancies are consistent with prior years and the cause has not been completely determined.

Waterworks District No. 2
Notes To Financial Statements
For the Year Ended June 30, 2003

10. WATER CONTRACTS

Waterworks District No. 2 purchases its water from the City of Ranton. Purchases of water by Waterworks District No. 2 were \$43,315 for the year ended June 30, 2003.

On April 29, 1997, the Waterworks Board of Commissioners adopted a resolution to approve a new contract with the City of Ranton to supply water as presented below.

The unit price per 100 cubic feet is based on the city's audited operating cost per 100 cubic feet sold times 10% plus a capacity charge. The initial and minimum price per 100 cubic feet is 0.825.

The agreement is for five years with an option to renew for additional five-year terms. The Waterworks District has requested a renewal of the contract and is presently waiting on a response from the City of Ranton. The City may terminate the agreement at any time with a provision to supply water for a period of twelve months from notice. The contract was adopted by the Board of Aldermen of the City of Ranton, and the contract was executed on September 14, 1997.

The current billing rates which have been effective since the billing period ended November 23, 1997, are as follows:

Base Rate (first 2,000 gallons)	\$ 9.50 per month
2,001 to 5,000 gallons	\$ 2.18 per 1,000 gallons
5,001 to 10,000 gallons	\$ 1.70 per 1,000 gallons
Over 10,000 gallons	\$ 1.38 per 1,000 gallons

11. COMMITMENTS AND CONTINGENT LIABILITIES

At June 30, 2003, there was no pending or contemplated litigation involving Waterworks District No. 2 which might involve contingent liabilities.

The state of Louisiana has announced plans to widen U.S. Highway 167 which is a major thoroughfare within the District's service area. The District has received correspondence from the Louisiana Department of Transportation and Development which indicates the state's expectation of the District to share in the cost of relocating water lines in the amount of \$6,151. This amount has not been accrued in the accompanying financial statements since the cost sharing is not due until construction begins and the time frame for this project is presently unknown.

12. COMPENSATED ABSENCES

No accrual was made as prescribed in FASB 43 for employees compensation for future absences (vacation pay) since these rights do not vest or accumulate.

Waterworks District No. 2
Supplementary Information
Schedule of Investments
June 30, 2003

11. COMMISSIONERS COMPENSATION

No compensation was paid to any member of the Board of Commissioners during the year ended June 30, 2003. Board members who served during the current fiscal year are listed below.

<u>Commissioner</u>	<u>Compensation</u>
Wayne Bowen	None
William R. Graham	None
Kenneth W. Henry	None
Bill Hogan	None
Darryl Johnson	None
Elaine Levy	None
Winston McVea	None
George Parkman	None

Other Supplemental Information

Waterworks District No. 1
Supplementary Information
Schedule of Investments
June 30, 2003

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Book Value</u>
ENTERPRISE FUND				
<u>Community Trust Bank</u>				
Certificate of Deposit - Water System Revenue Fund	3.00%	10/13/02	10/13/03	\$ 100,000
<u>Bank One</u>				
Certificate of Deposit - Capital Expenditures	6.50%	6/30/03	6/30/04	6,600
<u>Regions Bank</u>				
Certificates of Deposit - Customer Motor Deposits	2.55%	3/31/03	3/31/04	5,999
Total Enterprise Fund				<u>\$ 114,600</u>

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A Professional Accounting Corporation
111 East Carolina Avenue
Baton Rouge, Louisiana 70809

Joan L. Warren, CPA
Douglas A. Brewer, CPA

Telephone: (504) 281-1317
Fax: (504) 281-2068

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners
Waterworks District No. 2
Lincoln Parish, Louisiana

We have audited the financial statements of the Waterworks District No. 2 as of and for the year ended June 30, 2000, and have issued our report thereon dated December 9, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as item 02-1.

The Board of Commissioners
Waterworks District No. 2
Page 2

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above a material weakness.

This report is intended solely for the information of management of Waterworks District No. 2, the Louisiana Legislative Auditor, federal funding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Warren A. Brewer, CPA, APAC

Baton, Louisiana
December 8, 2003

Waterworks District No. 2
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2003

Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements for the year ended June 30, 2003.
2. One reportable condition disclosed during the audit of the financial statements is reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.

Findings – Financial Statements Audit Reportable Condition

00-01 Cash Receipts

Condition

During the testing of cash receipts, it was noted that deposits are only being made out or two times each month.

Recommendation

The District should implement a policy requiring deposits to be made no less than once per week. Weekly deposits should not be an unreasonable burden for the one part-time employee.

Response

Management will take this recommendation under advisement.

Waterworks District No. 2
Summary Schedule Of Prior Findings
For The Year Ended June 30, 2003

Internal Control and Compliance Material to the Financial Statements

82-01 Segregation of Duties

Finding

An adequate internal control structure requires proper segregation of duties. Waterworks District No. 2 does not have a sufficient number of employees to provide for proper segregation of duties due to economic limitations.

Recommendation

Because the condition is inherent, no action is recommended.

Response

Management concurs in the finding.

Status

The same conditions still exist for the year ended June 30, 2003.

Management Letter

No management letter was issued.

**Waterworks District No. 2
Management's Corrective Action Plan
For the Year Ended June 30, 2003**

Findings – Financial Statements Audit Reportable Conditions

03-01 Cash Receipts

Recommendation

The District should implement a policy requiring deposits to be made no less than once per week. Weekly deposits should not be an unreasonable burden for the one part-time employee.

Response

Management will take this recommendation under advisement.